

## Message Text

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INFO OCT-01 EA-11 ISO-00 AID-05 CEA-02 CIAE-00 COME-00

EB-12 FRB-03 INR-11 IO-14 NEA-14 NSAE-00 RSC-01

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OMB-01 AF-10 ARA-16 SS-20 NSC-07 PA-04 PRS-01 USIA-15

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TO SECSTATE WASH DC 3807

INFO AMEMBASSY ANKARA

AMEMBASSY BONN

AMEMBASSY DUBLIN

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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E.O.11652: N/A

TAGS: EFIN, OECD

SUBJECT: INVISIBLES COMMITTEE MEETING, SEPT 23-25, 1974

REFS: (A) DAF/INV/74.46

(B) DAF/INV/74.49

(C) DAF/INV/74.48

(D) TIR(74)5

1. SUMMARY. INVISIBLES COMMITTEE (IC) DEVOTED MAJOR PART CF SEPT 23-25 MEETING TO DISCUSSION OF COMPATIBILITY OF UNITED NATIONS CODE OF CONDUCT FOR LINER CONFERENCES WITH OECD CURRENT INVISIBLES CODE (CIC) (REPORTED SEPTEL). IT ALSO (A) COMPLETED THIRD EXAMINATION OF UK  
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AND IRISH RESERVATIONS; (B) POSTPONED DISCUSSION OF

AUSTRIAN DEROGATION TO CAPITAL MOVEMENTS CODE (CMC) PENDING RECEIPT OF SECRETARIAT DOCUMENTATION; AND (C) NOTED CHANGES IN REGULATIONS AFFECTING INVISIBLE OPERATIONS AND/OR CAPITAL MOVEMENTS IN PORTUGAL, GERMANY, FRANCE, JAPAN, U.S., AND TURKEY. END SUMMARY.

2. UN LINER CONVENTION AND OECD INVISIBLES CODE (REF A): IC DEBATED QUESTION OF COMPATIBILITY BETWEEN CONVENTION AND CODE WITH SOME ADDITIONAL SUPPORT FOR FINDING OF INCOMPATIBILITY. IN ADDITION TO U.S., UK, SWITZERLAND, SWEDEN AND FINLAND, EXPERTS OF AUSTRIA, ITALY AND GERMANY ANNOUNCED THEY COULD ACCEPT SECRETARIAT FINDING OF INCOMPATIBILITY IN CHAPTER IV OF REFDOK. BELGIAN, FRENCH, SPANISH AND JAPANESE EXPERTS WERE VOCAL MINORITY AGAINST THIS CONCLUSION. SECRETARIAT WILL NOW REDRAFT REFDOK TO REFLECT VIEWS OF BOTH SIDES AND CIRCULATE TO IC MEMBERS FOR FINAL DISCUSSION AT NEXT MEETING NOV 4-6. (FURTHER DETAILS SEPTTEL.)

3. UNITED KINGDOM: THIRD EXAMINATION OF RESERVATIONS TO CAPITAL CODE (REF B): IC EXAMINED REASONS FOR REMOVAL OF THREE UK RESERVATIONS NOTED IN REF B, AND RATIONALE FOR RETENTION OF REMAINING SIXTEEN. IT AGREED THAT IN LIGHT OF PRESENT UK BALANCE-OF-PAYMENTS SITUATION (AND CRITICAL ENERGY/COMMODITY PROBLEMS), UK UNABLE REALISTICALLY TO TAKE FURTHER STEPS TO REDUCE SCOPE ITS RESERVATIONS. ON OTHER HAND, IC WAS ENCOURAGED BY STATEMENT OF BRITISH EXPERT (GENT) THAT UK EXCHANGE CONTROL SYSTEM CONSTANTLY UNDER REVIEW WITH AIM OF REMOVING UNNECESSARY PROVISIONS AND SPEEDING UP PROCESSING OF APPLICATIONS FOR TRANSACTIONS.

4. OF THE THREE UK RESERVATIONS DROPPED, TWO WERE ON LIST A ITEMS (SALE BY NON-RESIDENT OF SECURITIES QUOTED ON A RECOGNIZED SECURITY MARKET AND SALE BY NON-RESIDENT OF COLLECTIVE INVESTMENT SECURITIES), AND ONE WAS A LIST B ITEM (PURCHASE BY NON-RESIDENT OF SECURITIES NOT QUOTED ON A RECOGNIZED SECURITY MARKET). BASIC REASON FOR REMOVING THESE RESERVATIONS WAS THAT IN RECENT YEARS TRANSACTIONS OF THESE TYPES HAD CAUSED NO UNCLASSIFIED

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QUALITATIVE OR QUANTITATIVE PROBLEMS. FURTHERMORE, IN FIRST TWO CASES, RESERVATIONS HAD APPLIED ONLY TO FOREIGN CURRENCY SECURITIES. LK ALSO HAS MODIFIED ITS LIMITED RESERVATIONS ON TWO ADDITIONAL ITEMS, (LIST A ITEM 9, AND LIST B ITEM 3) FOR REASONS GIVEN PAGES SIX THROUGH EIGHT OF REF C HAVING TO DO MAINLY WITH TERMINATION OF MEMBERSHIP IN EFTA AND CHANGES IN STERLING AREA.

5. IN ADDITION TO ABOVE CHANGES OR MODIFICATIONS, UK HAS MADE AMENDMENTS TO THREE ITEMS IN ITS NOTES CONCERNING PAYMENTS CHANNELS (SALE OF REAL ESTATE ABROAD BY RESIDENTS, TRANSFER OF IMMIGRANT ASSETS, AND PURCHASE OF REAL ESTATE ABROAD BY RESIDENTS) IN ORDER TO MAKE NOTES REFLECT CURRENT UK EXCHANGE RULES. IN FIRST CASE, PROCEEDS FROM SALE OF REAL ESTATE MAY NOW NORMALLY BE REALIZED FULLY BY MEANS OF INVESTMENT CURRENCY, WITHOUT REQUIREMENT TO EXCHANGE 25 PERCENT OF FOREIGN CURRENCY PROCEEDS FOR STERLING AT OFFICIAL RATE OF EXCHANGE. IN SECOND CASE, INDIVIDUALS IMMIGRATING TO STERLING-AREA

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COUNTRY OTHER THAN UK OR IRELAND AND ELDERLY IMMIGRANTS TO OTHER COUNTRIES, UPPER LIMIT OF AMOUNT NOT REQUIRING EXCHANGE AT INVESTMENT CURRENCY PREMIUM IS RAISED FROM 5,000 POUNDS TO 20,000 POUNDS PER FAMILY UNIT; AMOUNTS IN EXCESS OF 20,000 POUNDS MUST STILL GO THROUGH INVESTMENT CURRENCY MARKET. IN LAST CASE, RESIDENTS ARE GIVEN OPTION OF BUILDING OR PURCHASING REAL ESTATE ABROAD THROUGH USE OF BORROWED FOREIGN CURRENCY AS WELL AS BY MEANS OF INVESTMENT CURRENCY. UK EXPERT EMPHASIZED THAT LOANS FOR TRANSACTIONS APPROVED UNDER THIS AMENDMENT MUST BE REPAID EITHER CUT OF RECEIPTS OBTAINED ON SALE OF FOREIGN ASSETS THUS ACQUIRED OR, IF THERE IS A SHORT-  
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FALL, OUT OF INVESTMENT CURRENCY.

6. SPANISH REP COMPLAINED THAT EXTENSIVE USE OF UK CAPITAL EXPORT CONTROLS MEANT THAT UK, AS NATURAL CAPITAL EXPORTING DEVELOPED COUNTRY, IN FACT EXPORTED NO CAPITAL TO LESS-DEVELOPED COUNTRY MEMBERS OF OECD WHEN UNDERTAKING DIRECT INVESTMENT. HE URGED THAT WAYS BE FOUND TO ALLOW EXPORTATION OF CAPITAL IN SUPPORT OF DIRECT INVESTMENT. SEVERAL OTHER MEMBERS NOTED THAT ALTHOUGH UK HAS NO RESERVATION ON OUTWARD DIRECT INVESTMENT, REAL TRANSFER OF FUNDS IS GENERALLY IMPOSSIBLE, SINCE DIRECT INVESTMENT CAN BE FINANCED ONLY WITH BORROWED CURRENCY, PROFITS, OR INVESTMENT CURRENCY FUNDS. LATTER POOL OF FUNDS DOES NOT INCREASE OVER TIME. IT WAS NOTED THAT INVESTMENT CURRENCY PREMIUM HAS BEEN ESPECIALLY HIGH RECENTLY (45 PERCENT) AND SECRETARIAT POINTED OUT THAT EXCESSIVE PREMIUM WOULD TEND TO DISCRIMINATE AMONG TYPES OF UK INVESTORS AND TYPES OF INVESTMENT. FOR EXAMPLE, INVESTMENT TRUSTS AND OTHER LARGE OPERATIONS CAN MANAGE THEIR OVERSEAS PORTFOLIOS CUT OF BORROWED FUNDS THROUGH BACK-TO-BACK LOANS ETC., WHILE SMALLER INVESTORS ARE UNABLE TO DO SO.

7. IC ALMOST UNANIMOUS IN NOTING THAT EXTENSIVE USE OF EXCHANGE CONTROLS THROUGHOUT POST-WAR PERIOD HAD NOT STRENGTHENED STERLING OVER LONG HAUL, NOR HAD IT IMPROVED BALANCE OF PAYMENTS OR DOMESTIC ECONOMY. THUS, UK RATIONALE FOR MAINTENANCE OF MOST OF ITS RESERVATIONS TO CAPITAL CODE SEEMED POINTLESS. HOWEVER, UK EXPERTS STRESSED THAT AT THIS JUNCTURE, WITH POTENTIAL B/P PROBLEMS RESULTING FROM ENERGY PRICE INCREASES, UK AUTHORITIES UNABLE TO MAKE ANY FURTHER MODIFICATIONS OF RESTRICTIONS ON CAPITAL TRANSACTIONS. U.S. REP NOTED THAT UK FINANCIAL MARKET CAN INVOLVE ITSELF IN OFF-SHORE OR THIRD-COUNTRY TRADE FINANCING ONLY THROUGH USE

OF OFF-SHORE FUNDS. IC AGREED THIS CLARIFICATION SHOULD BE ADDED TO LIST B ITEM 8. REGARDING FINANCIAL CREDITS AND LOANS (LIST B ITEM 9), IT WAS POINTED OUT THAT TWO-YEAR MINIMUM PERIOD FOR BORROWING FROM NON-RESIDENTS WAS AVAILABLE ONLY IN SITUATIONS WHERE FUNDS WERE USED FOR REAL INVESTMENT PURPOSES (E.G., PLANT AND EQUIPMENT  
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EXPENDITURES). FIVE-YEAR LIMIT REMAINS FOR LOANS WHICH ARE OF PURELY FINANCIAL OR PROPERTY INVESTMENT CHARACTER IN UK. REGARDING GENERAL UK SYSTEM OF CONTROL, EXPERT NOTED THAT WHILE INDIVIDUAL COMMERCIAL BANKS ADVISE THEIR CUSTOMERS CONCERNING APPLICATION OF EXCHANGE CONTROLS, BANK OF ENGLAND MUST RULE ON ALL SPECIFIC APPLICATIONS.

8. THIRD EXAMINATION OF IRISH RESERVATIONS TO CAPITAL CODE (REF C): IC APPROVED REF C WITHOUT SUBSTANTIVE COMMENT, NOTING THAT FOR MOST PART IRISH REGULATIONS PARALLELED THOSE OF UK, AND THAT RATIONALE FOR CHANGES IN REF C IS ROUGHLY SAME AS IN REF B.

9. CHANGES IN COUNTRY REGULATIONS:

(A) PORTUGAL (REF D): COMMITTEE EXAMINED REF D AND HEARD STATEMENT BY PORTUGUESE REP, WHO STRESSED THAT CHANGES IN PORTUGUESE REGULATIONS WOULD NOT IN ANY WAY INCREASE RESTRICTIONS ON CAPITAL TRANSACTIONS OR TOURIST TRANSACTIONS. MEASURES HAD BEEN TAKEN PRIMARILY FOR PURPOSES OF IMPROVED VERIFICATION OF TRANSACTIONS, AND THEREFORE WOULD NOT AFFECT PORTUGAL'S POSITION UNDER CODE. RE PARAS 4 AND 9 REF D, REP NOTED NUMBER OF CHANGES TO AMOUNTS LISTED THEREIN. (CHANGES WILL BE PUT IN REVISED REF D.) SEVERAL MEMBERS RAISED QUESTION OF ALREADY LARGE LEVEL OF PORTUGUESE RESERVES AND EXPRESSED HOPE THAT WITH THIS IN MIND PORTUGAL WOULD REFRAIN FROM INCREASING RESTRICTIONS ON CAPITAL FLOWS DURING PRESENT PERIOD OF DOMESTIC AND INTERNATIONAL UNCERTAINTY. PORTUGUESE CONFIRMED THEY HAD NO PRESENT INTENTIONS OF INTRODUCING NEW RESTRICTIONS. RE QUESTION ON LENGTH OF TIME REQUIRED FOR VERIFICATION OF TRANS-

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ACTIONS PRIOR TO AUTHORIZATION, PORTUGUESE REP STRESSED  
THAT MOST APPLICATIONS WOULD BE VERIFIED AND AUTHORIZED  
WITHIN A DAY OR SO.

(B) GERMANY: GERMAN REP NOTED THAT CASH DEPOSIT AND  
REQUIREMENTS FOR AUTHORIZATION TO ACQUIRE CLAIMS ABROAD  
HAD BEEN DROPPED, BUT THERE WAS STILL REQUIREMENT TO  
OBTAIN AUTHORIZATION FOR PURCHASE OF GERMAN SHORT-TERM  
SECURITIES (UP TO FOUR YEARS).

(C) FRANCE: FRENCH REP INDICATED THAT RECENT MODIFI-  
CATIONS IN CONTROLS CONCERNING DIRECT INVESTMENT WERE  
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PRIMARILY OF FORMAL ADMINISTRATIVE NATURE AND WOULD  
PROBABLY NOT AFFECT POSITION UNDER THE CODE. HOWEVER,  
MEMBERS REQUESTED FURTHER INFORMATION ON INCREASED MINI-

MUM INVESTMENT AMOUNTS PERMITTED WITHOUT SPECIFIC AUTHORIZATION.

(D) JAPAN: JAPANESE REP NOTED THAT HIS AUTHORITIES HAD LIFTED RESTRICTIONS ON FOREIGN PURCHASES OF SHORT-TERM TREASURY SECURITIES AND UNLISTED BCNDS OF UNDER ONE YEAR BECAUSE OF IMPROVED INTERNATIONAL PAYMENTS POSITION AND EVIDENT FACT THAT LARGE AND DESTABILIZING SHORT-TERM CAPITAL INFLOWS WERE NO LONGER A SIGNIFICANT PROBLEM FOR JAPAN.

(E) UNITED STATES: U.S. REP NOTED PROPOSED REMOVAL OF U.S. INCOME TAX EXEMPTION FOR CERTAIN BONDS ISSUED ABROAD BY U.S. ISSUERS.

(F) SWITZERLAND: IN ANSWERING QUESTION FROM U.S. REP, SWISS REP INDICATED THAT RECENT SWISS STAMP TAX ON TRANSFERS WOULD NOT AFFECT SWITZERLAND'S POSITION UNDER CODE, AND THAT IT HAD NOT SEEMINGLY HAD ANY DIFFERENTIAL IMPACT ON OPERATIONS OF FOREIGN-OWNED BROKERS AND BANKS IN SWITZERLAND AS COMPARED WITH DOMESTICALLY-OWNED.

10. OIL COUNTRIES: SECRETARIAT RAISED QUESTION WHETHER OR NOT IC SHOULD BEGIN NOW TO EXAMINE QUESTION OF OECD COUNTRY RESTRICTIONS ON CAPITAL TRANSACTIONS VIA-A-VIS NON-MEMBER COUNTRIES, ESPECIALLY OIL PRODUCERS. COMMITTEE WAS INCLINED TO TAKE PASSIVE ROLE IN THIS, ALTHOUGH POSSIBILITY OF REVIEW RE DIFFERENTIAL IMPACT ON DIFFERENT COUNTRIES, AND THEREFORE DIFFERENTIAL CAPITAL OUTFLOWS TO OTHER MEMBER COUNTRIES, WAS RAISED AND IC ACCEPTED PROPOSAL BY CHAIRMAN TO CONSIDER QUESTION AT NEXT MEETING.

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## Message Attributes

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